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Article - 1 : India and China's economic engagement in Sri Lanka



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India and China's Economic Engagement in Sri Lanka Post-2022 Crisis

June 15, 2026 | Issue Brief



Himanshu Kulkarni

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Context India and China have recalibrated their economic engagement with Sri Lanka in the aftermath of the country's 2022 sovereign debt crisis.

Facts

Sri Lanka - First Asia Pacific country to declare a sovereign default in 2022.

Sri Lanka's trade deficit with China - from \$4 billion (2024) to \$5.9 billion in 2026.

India - Sri Lanka trade : \$5.5 billion in 2024 and India is Sri Lanka's largest trading partner.

Analytical Crux

Sri Lanka's 2022 default was not primarily a China debt trap. The commercial bonds (ISBs) accounted for 42% of external debt & 50% of debt servicing. However, China has reputational costs & pivoted away from BRI-style sovereign lending toward FDI. India used the crisis to make a strategic leap, from "traditional donor" to "comprehensive development partner". It marks a qualitative shift in India's approach. The competition is not about who builds what, but who integrates deeply. India's model of joint ventures, trade linkages and financial connectivity gives it a structural edge that loan-financed Chinese infrastructure.

Verbatim Quotes

"Sri Lanka's pragmatic balancing in action, wherein it continues to pursue development projects with both China and India especially in the maritime infrastructure and energy sectors."

— Himanshu Kulkarni

Article - 2 : Moving from war to deal in a deeply divided region

Perspectives, on the Editorial and Opinion pages, on the U.S.–Iran conflict, its regional implications and prospects for diplomacy

Moving from war to deal in a deeply divided region

Even as the ceasefire between the United States and Iran was being repeatedly breached, the Iran war showed something that the world appears to have forgotten: military force, by itself, cannot be a solution unless it is followed by a political settlement – whether in Ukraine, Gaza, Lebanon, Sudan or Iran. The last four years of relentless bombardment, bloodshed, and the killing of innocent civilians and children with impunity have exposed the reality that none of the major powers seriously pursued the option of negotiations. In fact, many have been either directly involved in acts of aggression or have actively supported them through the supply of arms and financial assistance. However, the growing stalemate in almost all major conflicts underscores a fundamental truth: a political resolution is the only way forward if the major powers are to preserve what remains of their dignity.

An uneasy path to fragile peace
Restarting a full-scale war with Iran had become untenable for the U.S. after setbacks on both the strategic and political fronts, and equally untenable for Iran after reverses on the military, economic and leadership fronts. Both sides were ultimately compelled to negotiate. However, for Israel, which had initially encouraged the U.S. to start this war, any deal with Iran that fell short of regime change was unacceptable – and remains so – because of Iran's continued support for a much-weakened Hezbollah in Lebanon, which Israel still regards as a direct threat. With Israeli elections due in October 2026, a ceasefire on the Lebanon front is politically unpalatable for Prime Minister Benjamin Netanyahu and his coalition. Iran, meanwhile, has become more assertive, by directly targeting Israeli interests and U.S. assets in the Gulf even when Hezbollah was attacked. Until recently, the pattern had been the reverse, with Iran's proxies retaliating whenever Iran was targeted.

The much-awaited digitally signed U.S.–Iran deal reflects the reality that Iran has had a strategic win. Reports indicate that it opens up the Strait of Hormuz unconditionally, halts the war on all fronts including Lebanon, lifts Iranian oil sanctions, unfreezes Iranian assets and commits Iran not to produce nuclear weapons.

Negotiations to commit Iran to suspend nuclear enrichment and give up enriched nuclear material without being dubbed a repackaged Obama-era 2016 Joint Comprehensive Plan of Action (JCPOA), will take place over 60 days. In some ways the deal is not yet a political settlement, but the beginning of one.

Let anyone romanticise Iran's strategic gains, they do not alter the fundamental reality that Iran will continue to be viewed as a major disruptor in



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West Asia. There is little indication that its reliance on non-state actors such as Hezbollah, the Houthis and Iraqi militias will diminish. The Iranian government is now more hardline, its missile arsenal will be replenished, and it retains the capability to threaten the Strait of Hormuz and strike Gulf countries at will. The region is unlikely to be any safer after a deal than it was before.

This is precisely why U.S. President Donald Trump's 'Make America Great Again' (MAGA) base was pushing him to get a better deal. Mr. Trump's push to get the Saudis, Qataris and others to join the Abraham Accords to normalise relations with Israel made no headway since Israeli attacks were unremitting in Gaza, the West Bank and Lebanon.

Even now, after the deal, Israel has sworn to keep the territories it has captured in Lebanon and expand Israeli settlements in the occupied West Bank. Iran is apprehensive, for good reason, that the U.S. or Israel will derail the deal at the first sign of stalled negotiations or a Hezbollah attack. Israel, meanwhile, has accused the U.S. of selling it out because none of its key objectives have been achieved, conveniently overlooking its own role in urging the U.S. into the conflict.

Gulf fault lines exposed
The Gulf countries have also come out the worse off. They bet on a U.S. security umbrella, signed bilateral Abraham Accords with Israel sidelining historical regional conflicts, shed the conservative tag (like Saudi Arabia), invested in a hi-tech future and joined important global groupings such as BRICS, signalling their increasing ambitions as middle powers. Those ambitions have been rudely shaken and their fragilities exposed.

The Gulf states need to return to the drawing board. They overestimated their collective economic and security strength while underestimating their internal divisions and long-standing rivalries.

The post-war landscape has exposed these fault lines: Saudi Arabia and the United Arab Emirates (UAE) have worked at cross-purposes in Yemen, Sudan and Somalia, the Emiratis have left the Organization of the Petroleum Exporting Countries – a clear signal that Saudi writ on energy policy is over. Their supply chains have to be reworked to overcome a future Hormuz blockade. They will face a growth slowdown after the war impacting their ambitions. While the UAE has moved closer to Israel and the U.S., others have adopted a more cautious approach. Ironically, the Iran war has divided the Gulf rather than united it against a common adversary, making a recalibration of relations

with Washington inevitable. After the collapse of deterrence against Iran, no Gulf country is secure unless it forges a regional security architecture bringing Iran into the fold. The lessons of the Ukraine war should not be forgotten. Europe expanded the North Atlantic Treaty Organization's boundaries towards Russia without bringing Moscow into a broader regional security architecture, and is now paying the price. Yet, neither Europe nor West Asia appears to have learned that lesson.

The other power shifts
Russia and China are happy to watch the U.S. get bogged down. For China, a weakened Trump is easier to manage, while the Iran war has given China a preview of what to expect if it closes the Taiwan Strait or if a well-armed smaller power is attacked by a bigger one. Although China seeks a larger role in West Asia, the Gulf remains too deeply tied to the U.S. economically and strategically for any dramatic shift. China is therefore likely to work through its "iron brother" Pakistan, which found itself in a geographical sweet spot. For Russia, meanwhile, the war only reinforces the strategic logic it has long applied to Ukraine.

India initially appeared to align with Israel and the U.S., and ignored the assassination of the Iranian Supreme Leader, Ayatollah Ali Khamenei, but quickly realised the need for a more balanced approach when Iran closed the Strait of Hormuz and threatened critical interests such as energy security and maritime trade. Close ties with Israel or the UAE are important, but taking sides in regional conflicts is not.

With growing divergences among regional powers, Pakistan's rising role, and the possibility of greater Chinese influence in West Asia, bilateral relationships alone are insufficient. India needs a balanced regional strategy rooted in strategic autonomy and multi-alignment. Any slowdown in the Gulf will affect trade, investments, employment opportunities for Indian workers and diaspora remittances. The Chinese getting a permanent maritime foothold in that region will make it worse. More broadly, the inability of the U.S. to accommodate India within its larger strategic vision in West Asia, East Asia and the wider neighbourhood is hurting India.

The question now is whether Israel will seek to undermine the Iran deal. Will the protagonists draw lessons from this conflict, or will they embark on yet another cycle of wars in Lebanon, Cuba, Gaza and the West Bank? And, on a related note, will Pakistan's growing proximity to the U.S. increase pressure on India to resume unconditional talks with Islamabad?



A fragile Iran deal masks deeper regional rivalries and uncertainties

Context

The US-Iran conflict ceasefire deal is fragile. India should focus on its strategic choices amid shifting Gulf alignments and structurally weakened American security umbrella.

Facts

UAE leaving OPEC - fracture in Gulf unity and end of Saudi dominance over energy policy.

Pakistan's "geographical sweet spot" in the Iran conflict - a strategic challenge for India.

The US-Iran deal - halts war on all fronts and opens the strait of Hormuz unconditionally.

Analytical Crux

The Iran war has fractured the GCC, weakened the credibility of the US security umbrella and helped Pakistan as a strategic windfall. India's bilateral ties with Israel, UAE, Iran or US are becoming insufficient in a region. The inability of the U.S. to accommodate India within its larger strategic vision in West Asia, East Asia and the wider neighbourhood is hurting India. India's failure to be proactively embedded in a regional security architecture talks about a reactive rather than anticipatory foreign policy.

Verbatim Quotes

"With growing divergences among regional powers. Pakistan's rising role, and the possibility of greater Chinese influence in West Asia, bilateral relationships alone are insufficient. India needs a balanced regional regional strategy rooted in strategic autonomy and multi-alignment."

— T. S. Tirumurti

Article - 3 : India's challenges lies in navigating not between west and rest

India's challenge lies in navigating not between West and Rest, but within West



RAJA MANDALA
BY C RAJA MOHAN

NARENDRA MODI'S participation in the G7 summit at Evian this week marks India's 13th appearance at the forum and the Prime Minister's seventh in a row since 2019. Fittingly, India's engagement with the grouping began at Evian itself, when Atal Bihari Vajpayee was invited in 2003, and continued with Manmohan Singh between 2005 and 2009.

That India is a regular invitee reflects a deepening mutual engagement, rooted in the country's economic transformation since the 1990s and its growing salience in the international system. During the Cold War, India placed most of its economic and political eggs in the Russian basket. The Soviet collapse of 1991, coinciding with the breakdown of India's own economic model, forced a restructuring that profoundly altered Delhi's relationship with the West.

Today, the G7 is the principal destination of Indian exports, absorbing nearly a third of the country's merchandise shipments. Most of India's service exports also go to the G7. It is also the main destination for the outward flow of Indian professionals and students; a more restrictive America since Donald Trump's re-election as president has merely redirected some of those flows to Europe.

Despite the rhetoric about building a new global economic order with Russia and China, India's economic diplomacy in recent years has been less about BRICS than about deepening ties with the developed West through trade liberalisation. India's quest for diversification is now less between the West and BRICS than within the West — it is marked by a new determination to deepen ties with Europe, the UK and Canada in the G7.

India's real challenge today comes from



ILLUSTRATION: C R SAKURMAR

rapid and unexpected change within the West itself. Three trends stand out. The first is the rise of American unilateralism under Trump. Trump's instinct is to pursue the narrow national interest of the US in the name of "America First". As he forces allies to fall in line on key issues, the divisions across the Atlantic have widened.

Contrary to the popular notion of American decline, the US has grown stronger relative to its Western allies over three decades. In the mid-1990s, the European economy was roughly equal in size to America's, and Japan's GDP stood at two-thirds to three-quarters of it. Today, the eurozone is little more than half of US output and Japan barely a seventh. With its GDP at around \$31 trillion and still growing at 2.5 per cent, the US is set to widen its lead over allies and over China — the one power whose relative weight has risen, though Beijing's own troubles have dimmed the prospect of overtaking America.

Where many in Delhi's foreign policy community see an irreconcilable contradiction between the pursuit of strategic autonomy and partnership with the West, China demonstrated the art of transcending it — and against far steeper odds

To be sure, Washington has ceded some ground to Beijing in select frontier areas — advanced manufacturing, electric vehicles, increasingly competitive open-weight AI models. Trump's industrial policy is eager to make amends. But the depth of the American innovation system and its capital markets remains without parallel.

SpaceX's listing on the Nasdaq last week, on extravagant promises of a new space economy, pushed its paper valuation to \$2 trillion despite the absence of past profitability. What it really signals is a new technological revolution — in what China's communists call the "new quality productive forces". French President Emmanuel Macron's decision to seat the tech titans at Evian as near-equals underlines the rise of a new American tech capitalism with far-reaching consequences.

Third, Trump is recasting not only the internal balance of the West but the terms of its engagement with Russia and China. In

pursuit of a grand bargain with Tehran, he has strained the alliance with Israel; in South Asia, he is talking up Pakistan. His fluid new approaches, with no attachment to the past, promise to transform the geopolitics of Europe, the Middle East and the Indo-Pacific.

The task of Indian diplomacy is to manage these changes with patience and calm. The answers are only partly external; most lie at home — in restructuring the economy, modernising the defence industrial base, revitalising the technological ecosystem. Curiously, partnership with the West remains crucial to that effort.

That brings us back to Evian in 2003, where China's president, Hu Jintao, sat alongside Vajpayee — the first time Beijing was drawn into the Western outreach. China's GDP then was about \$1.6 trillion, India's barely \$600 billion. China has since raced to some \$20 trillion in 2025; India still hovers below \$4 trillion. The speed and purpose of internal transformation is what distinguishes China from India. It is not just a question of quantity. The quality of the Chinese economy in terms of its technological advances and scientific sophistication is more than impressive.

China's leaders are no longer invited to the G7, yet they loom large over it. A central question at Evian is how to manage the global imbalances produced by China's export juggernaut. That transformation underlines the twin dialectic China navigated with such aplomb over the last five decades: To rise through deeper ties with the West but also strengthen China's national capability. China today is at once a huge economic partner for the West and its principal strategic challenger.

Where many in Delhi's foreign policy community see an irreconcilable contradiction between the pursuit of strategic autonomy and partnership with the West, China demonstrated the art of transcending it — and against far steeper odds.

The writer is a contributing editor on international affairs for The Indian Express

Context

India's foreign policy challenges is no longer about choosing between the west & BRICS, but about managing rapid and disruptive changes unfolding within West itself.

Facts

India's exports — one third of India's merchandise shipments to G7.

China's GDP — US \$ 20 trillion, India "hovers below" US \$ 4 trillion.

China's twin dialectic — deeper ties with the West and strengthening national capability.

Analytical Crux

India's strategic autonomy built on rhetorical distance from the West is a liability rather than an asset. India's real economy is embedded in the western order, not BRICS. The challenge India faces within the G7 is tripartite: managing American unilateralism, navigating the new tech capitalism reshaping geopolitical power and managing Trump's transactional reconfiguration. It is that cold realism that separates China's hard-headed strategy from the perpetually prickly and anxious Indian foreign policy discourse. China used western capital and markets without compromising its autonomy, however India lacked it.

Verbatim Quotes

"India's quest for diversification is less between the West and BRICS than within the west - it is marked by a determination to deeper ties with Europe, the UK and Canada in the G7."

- C. Raja Mohan

PSIR PAPER II, 2025: India maintains strong ties with countries that will assure a free and open Indo-Pacific and guarantee greater connectivity with rest of the world. Analyze.

PSIR PAPER II, 2024: Despite deep ties, India's relations with Sri Lanka have seen strains due to China's growing influence in Sri Lanka through investments and economic dominance. Analyze.

PSIR PAPER II, 2024: Discuss the potential role that India could play as the leader of the Global South in realising the goal of establishing a new international economic order in the 21st century.

PSIR PAPER II, 2023: Discuss the various constraints on American hegemony today. Which of these are likely to become more prominent in the future?

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